Cumbria Office of the Police, Fire and Crime Commissioner Report

Title: Treasury Management Activities 2024/25 Quarter 4 (January to March 2025) and Annual Report 2024/25

Executive Board Police 24 April 2025 and JAC Meeting 25 June 2025

Purpose of the Report

The purpose of this paper is to report on the Treasury Management Activities (TMA), which have taken place during the period January to March 2025, in accordance with the requirements of CIPFA's Code of Practice on Treasury Management.
TMA are undertaken in accordance with the Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) approved by the Commissioner in February each year.

Recommendations

The Commissioner is asked to note the contents of this report.
JAC Members are asked to note the contents of this report. The report is provided as part of the arrangements to ensure members are briefed on Treasury Management and maintain an understanding of activity in support of their review of the annual strategy.

Economic Background

Investment returns remained robust throughout 2024/25 with the Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

During 2024/25, investors were able to achieve returns in excess of 5% for all periods ranging from 1 month to 12 months in the spring of 2024, however by March 2025 deposit rates were some 0.75% - 1% lower

Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

As of early April 2025, market sentiment has been heavily influenced of late by President Trump's wide-ranging trade tariffs policy. Commentators anticipate a growing risk of a US recession, whilst UK GDP is projected by the Office for Budget Responsibility to remain tepid, perhaps achieving 1% GDP growth in 2025/26.

Interest forecasts have not been straight-forward, concerns over rising inflation after the Autumn Statement in October led to reduced expectations for the Bank Rate to fall. The CPI measure of inflation is expected to reach c3.75% by the autumn of 2025, which could provide for some presentational issues for the Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March, only two further rate cuts were priced into the market for 2025 (4% at December 2025). A week later and sentiment had changed dramatically in the wake of the equity market sell-off, to the extent that markets now expect three Bank Rate reductions between May and December 2025 (Bank Rate to fall to 3.75%). However, as we know, the market & forecasts remain volatile.

TM Operations and Performance Measures

The Commissioners day to day TMA are undertaken in accordance with the TMSS. The TMSS establishes an investment strategy with limits for particular categories of investment and individual counterparty limits within the categories.

Outstanding Investments: As at 31 March 2025 the total value of investments was £6.243m and all were within TMSS limits.

The chart below shows the outstanding investments at 31 March by category.

Category	Category Limit (£m)	Investments at 31 Mar (£m)	Compliance with Limit
1 - Banks Unsecured	20	3.770	Yes
2 - Banks Secured	20	0.000	Yes
3 - Government (inc LA)	10	0.000	Yes
4 - Registered Providers	10	0.000	Yes
5 - Pooled Funds	15	2.473	Yes
Total		**6.243**	

A full list of the investments that make up the balance of £6.243m is provided at **Appendix A.**

Investment Activity: During quarter 4 a total of 4 investments with a combined value of £11m were made within TM categories 1-3 (banks unsecured, banks secured and Government). In addition to these, 22 investments with a combined value of £30.1m were placed in category 5 (money market pooled funds).

Non-specified investments: The TMSS sets a limit for investments with a duration of greater than 364 days at the time the investment is made (known as non-specified investments), this limit is £5m. At 31 March the Commissioner had no investments meeting this description.

Investment Income: The base budget for investment interest receivable in 2024/25 was set at £400k based on the interest rate predictions at the time, since then interest rates have sharply risen & then started to fall again. The actual income achieved against this target was £1.145m.

The average return on investments during quarter 4 was 4.73%. As a measure of investment performance, the rate achieved on maturing investments of over 3 months in duration would normally be compared with the average BOE base rate for the period of the investment., this was 4.58%.

Cash Balances: The aim of the TMSS is to invest surplus funds and minimise the level of un-invested cash balances. The actual un-invested cash balances for the period January to March are summarised in the table below:

Quarter 4	Number of Days	Average Balance £	Largest Balance £
Days In Credit	90	61,611	308,796
Days Overdrawn	0	0	0

There were a number of occasions where the bank balance exceeded the target balance of £7.5k as the practice of sweeping smaller balances daily into the liquidity select account was halted in August 2021. The time taken to perform and verify the transfers outweighed the lost interest from holding higher balances in the main fund. Both the main fund and liquidity select account are held at the Commissioners main bank (the NatWest) so there was no change to the risk profile in halting this practice.

The overnight balance of £309k occurred in January 2025, seized cash was received into the PFCC’s main fund account during the afternoon, after the money market funds had closed. The funds were held overnight in the current account as they are not guaranteed to be cleared until the next working day.

Loan Activity: There were no external loans in place on the 31 March 2025.

Prudential Indicators

In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators which determine if the TMSS meets the requirements of the Prudential Code in terms of ***Affordability, Sustainability and Prudence.***

An analysis of the current position with regard to those prudential indicators for the financial year 2024/25 is provided at **Appendix B**. The analysis confirms that the Prudential Indicators set for 2024/25 have all been complied with.

Annual Report on Treasury Management Operations 2024/25

Treasury Strategy: In February 2024 the Commissioner approved the 2024/25 Treasury Management Strategy Statement (TMSS). The TMSS incorporated the investment and borrowing strategies for the 2024/25 financial year. The investment strategy approved for 2024/25 was largely the same as had been adopted for the previous year. The limits for each category of investment were based on the relative security of each class of financial institution and a percentage of the estimated balances, which would be available for investment during the year.

In relation to borrowing, the Commissioner has an underlying need to borrow funds to finance the capital programme, which is measured by the Capital Financing requirement (CFR).
The CFR at the start of 2024/25 amounted to £20.799m (including £3.700m relating to the PFI agreement for Workington BCU HQ) leaving a £17.099m exposure to external borrowing at some time in the future, which is presently being covered by the use of internal funds (reserves).

The forecasted closing CFR for 2024/25 is £20.063, of which £3.402m relates to the PFI thereby leaving a £16.660m exposure to the requirement to undertake external borrowing at some point.

During 2024/25 the Commissioner has maintained this strategy of using cash balances, arising primarily from reserves, to meet the cash flow commitments and was not therefore compelled to borrow.

Long term borrowing rates were high during 2024/25 and the core advice from MUFG Corporate Markets was to reappraise any capital expenditure plans/profiles, and internally borrow for any financing, or use short dated borrowing, this advice will remain until the long term rates reduce.

The provision of treasury management advice services is through a contract with MUFG Corporate Markets.

The Commissioner, in consultation with the treasury advisors continues to look for the most opportune time to undertake any longer term borrowing to fund the capital financing requirement.

Key Statistics

Principal:

Number of investments placed during 2024/25 was **122** (89 in 2023/24).

Value of investments placed during 2024/25 was **£169.731** (£157.714m in 2023/24).

Of these investments made, 121 were to external counterparties and as such will have attracted a £10 transfer fee per transaction. The transfer to the NatWest Liquidity Select account for overnight money is classed as an inter-account transfer' as the NatWest holds the Commissioner's main bank account. This type of transfer is free although we do pay a small fee to access the internet banking site.

The **average** daily investment balance during 2024/25 was **£23.002m** (£20.242m in 2023/24).

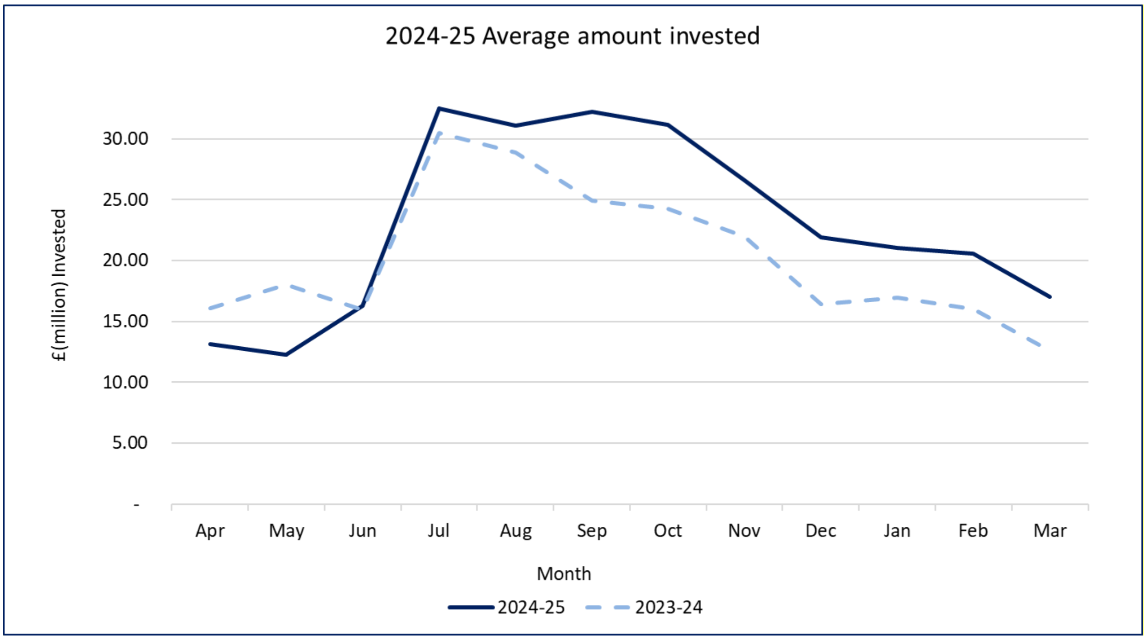
The **highest** daily investment balance in 2024/25 was **£36.859m** (£34.129m in 2023/24)

The **lowest** daily investment balance in 2024/25 was **£5.126m** (£5.126m in 2023/24).

The lowest daily balance in 2324 occurred on the 31/03/2025 and was carried over the easter weekend at the start of April 2024 – that is why the lowest recorded balance is identical for both years.

A detailed breakdown of the closing balance invested as at 31 March 2025 is provided at **Appendix A.**

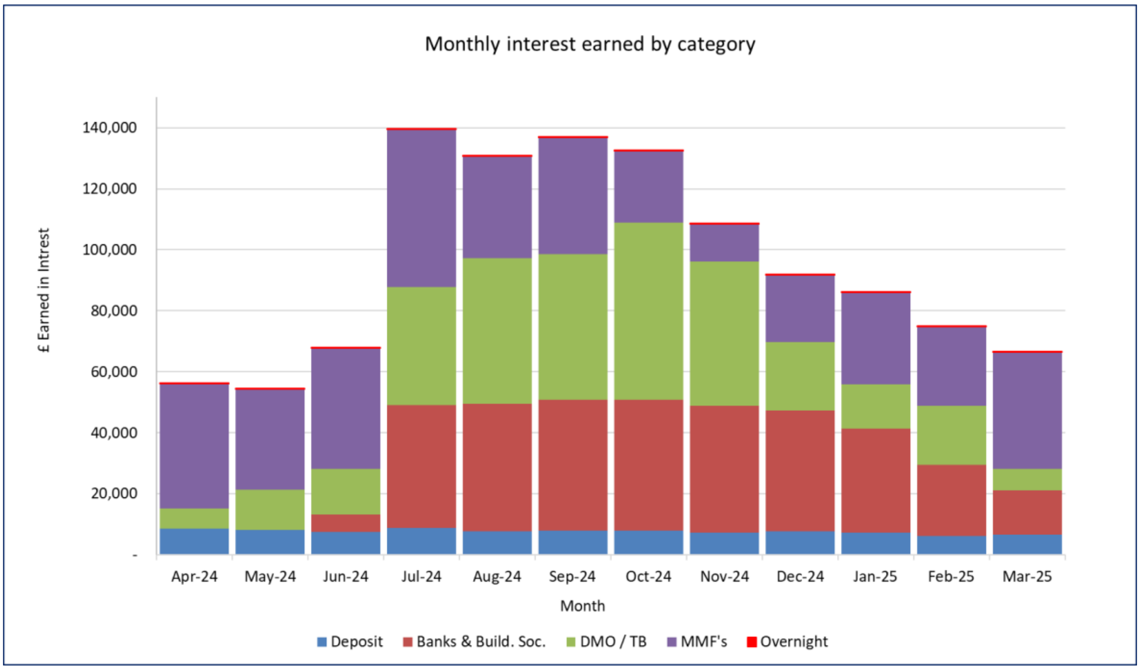
The level of cash reserves available to invest has followed the same pattern as seen in previous years. Following the introduction of the Home Office Police Pensions Grant in 2007/08, there has been an annual spike in investments in July, when the majority of the grant is received, followed by a gradual decline in balances as pension payments are made throughout the remainder of the year.



This chart illustrates the monthly average amounts invested during 2024/25 (with monthly comparatives for 2023/24).

Interest:

A total of £1.145m was earned in 2024/25 (£1.009k in 2023/24) from the Commissioner's treasury management activities and can be broken down as follows:



This chart illustrates the monthly Interest receipts during 2024/25 by category of investment.

The average return on investments for 2024/25 was 4.98% (4.97% in 2023/24). The base rate started the year at 5.25 % and was decreased 3 times during the financial year as follows:

Date	Decrease	Rate
09/05/2024	0.00	5.25%
01/08/2024	-0.25%	5.00%
07/11/2024	-0.25%	4.75%
06/02/2025	-0.25%	4.50%

The rate has been held at 4.50% since February 2025, it is expected that rates will continue to reduce during 2025 and 2026.

The table above shows the outturn on investment interest as £1.145m for 2024/25 which is considerably above the £400k base budget. The base budget was set when interest rates were uncertain and still volatile, this was subsequently revised to £1.076m. In each quarterly treasury management activities report the latest expected outturn has been reported, namely, June £1.193m, September £1.297m and December £1.144m

The latest forecasts estimate that rates will reduce to 3.75% by the end of the financial year although the economy is still volatile, and this is the current forecast.

Treasury Operations - Investments: As discussed above the aim of the Treasury Management Strategy is to invest surplus cash and minimise the level of un-invested cash balances, whilst limiting risks to the Commissioner's funds.

Actual un-invested balances for 2024/25 for the Commissioner's main bank account are summarised in the table below:

2024/25	Number of Days	Average Balance £	Largest Balance £
Days In Credit	365	84,295	6,504,482
Days Overdrawn	0	0	0

There have been instances in each quarter where the credit balance has been above normal operating levels. Policing operations are regularly securing higher amounts of seized cash, occasionally these amounts are received into the PFCC's main fund account during late afternoon, after the money market funds have closed. This means the funds are held overnight as they are not guaranteed as cleared until the next working day. A high balance of £6,504,482 occurred on 8th November 2024, where, due to dual authorisation, a UK Government DMO investment did not get authorised in time. These funds were held overnight and invested the following day.

Treasury Operations – Borrowing:

No borrowing activities were carried out during 2024/25.

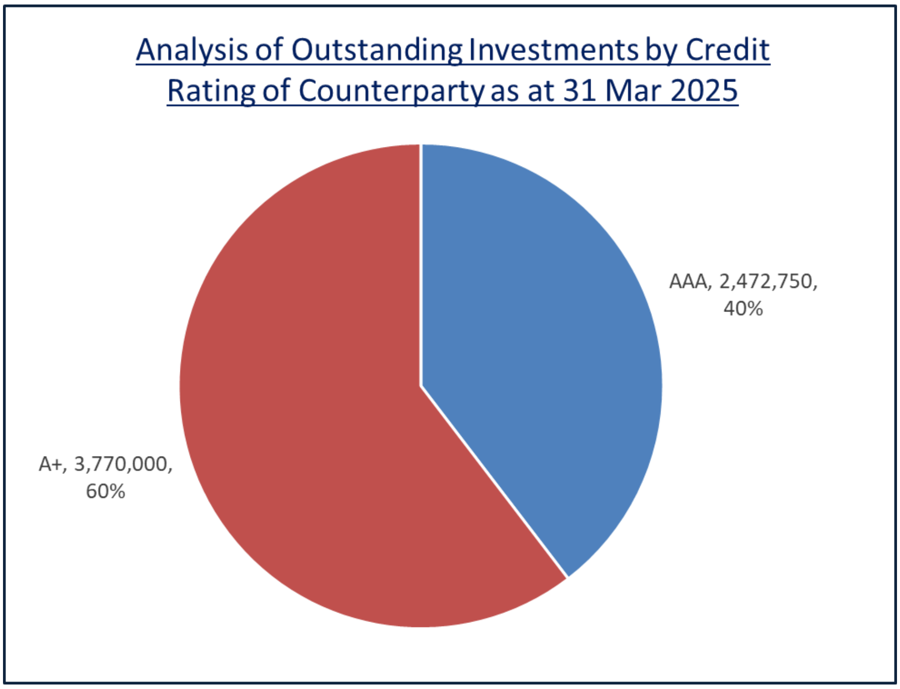
Compliance with Prudential Indicators

All treasury related Prudential Indicators for 2024/25, which were set in February 2024 as part of the annual Statement of Treasury Management Strategy, have been complied with. Further details can be found at Appendix B

Appendix A

Investment Balance at 31 March 2025

Category/Institution	Credit Rating	Investment Date	Investment Matures	Rate (%)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)					
Lloyds Bank	A+	01/04/2024	On Demand		1,760,000
MUFG - Nat Bank Kuwait	A+	03/07/2024	04/04/2025	5.260%	2,000,000
NatWest (Liquidity Select Acc)	A+	01/04/2024	On Demand	1.25%	10,000
					3,770,000
Category 2 - Banks Secured (Includes Banks & Building Societies)					
None					
					0
Category 3 - Government (Includes HM Treasury and Other LA's)					
None					
					0
Category 4 - Registered Providers (Includes Providers of Social Housing)					
None					
					0
Category 5 - Pooled Funds (Includes AAA rated Money Market Funds)					
Invesco	AAA	Various	On demand	4.53%	1,118,500
BlackRock	AAA	Various	On demand	4.41%	42,500
Fidelity	AAA	Various	On demand	4.51%	165,875
Goldman Sachs	AAA	Various	On demand	4.43%	17,500
Aberdeen Standard	AAA	Various	On demand	4.54%	1,128,375
					2,472,750
Total					**6,242,750**



Note – The credit ratings in the table & chart relate to the standing as at 31 March 2025, these ratings are constantly subject to change.

Appendix B
Prudential Indicators 2024/25

Treasury Management Indicators		Result	RAG
The Authorised Limit			
The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section3(1) of the Local Government Act 2003.	**TEST - Is current external borrowing within the approved limit**	**YES**	
The Operational Boundary			
The operational boundary represents and estimate of the most likely but not worse case scenario it is only a guide and may be breached temporarily due to variations in cash flow.	**TEST - Is current external borrowing within the approved limit**	**YES**	
Actual External Debt			
It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investment rates compared to the costs of borrowing.	**TEST - Is the external debt within the Authorised limit and operational boundry**	**YES**	
Gross and Net Debt			
The purpose of this indicator is to highlight a situation where the Commissioner is planning to borrow in advance of need.	**TEST - Is the PFCC planning to borrow in advance of need**	**NO**	
Maturity Structure of Borrowing			
The indicator is designed to exercise control over the Commissioner having large concentrations of fixed rate debt needing to be repaid at any one time.	**TEST - Does the PFCC have large amounts of fixed rate debt requiring repayment at any one time**	**NO**	
Upper Limit for total principal sums invested for over 365 Days			
The purpose of this indicator is to ensure that the Commissioner has protected himself against the risk of loss arising from the need to seek early redemption of principal sums invested.	**TEST - Is the value of long term investments witin the approved limit**	**YES**	

Prudential indicators		Result	RAG
Ratio of Financing Costs to Net Revenue Stream			
This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet financing costs.	**TEST - Is the ratio of captial expenditure funded by revenue within planned limits**	**YES**	
Net Borrowing and the Capital Financing Requirement			
This indicator is to ensure that net borrowing will only be for capital purposes. The Commissioner should ensure that the net external borrowing does not exceed the total CFR requirement from the preceding year plus any additional borrowing for the next 2 years.	**TEST - Is net debt less than the capital financing requirement**	**YES**	
Capital Expenditure and Capital financing			
The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2024/25.	**TEST - Is the current capital outurn within planned limits**	**YES**	
Capital Financing Requirement			
The CFR is a measure of the extent to which the Commissioner needs to borrow to support capital expenditure only. It should be noted that at present all borrowing has been met internally.	**TEST - Is the capital financing requirment within planned limits**	**YES**	